Town of North Reading Adoption of Section 18A MGL Chapter 32B

Informational Hearing March 1, 2010

Overview

- MGL 32B, Section 18A
- North Reading Statistics & Health Costs
- Retiree Health Insurance Data
- Why Adopt Section 18A?

MGL 32B, Section 18A

- MGL 32B governs municipal health insurance
 - Section 18: Acceptance requires transfer of all eligible retirees to Medicare Part B (physician insurance)
- "18A" applies to <u>future</u> Medicare eligible retirees only
 - Emergency legislation passed Nov '08
 - Local acceptance statute
 - Requires adoption by Town Meeting

Section 18 Communities

140+ municipalities have adopted Section 18 including:

- Reading
- Boxford
- Billerica
- Burlington
- Middleton
- Georgetown
- Wakefield

- Haverhill
- Dunstable
- Salem
- Ipswich
- Arlington
- Tewksbury
- Woburn

Before Section 18A

- Upon acceptance of Section 18:
 - The Town would be required to locate & enroll <u>all</u> Medicare eligible retirees.
- Upon <u>acceptance</u> at Town Meeting of Section 18A:
 - The Town enrolls <u>only</u> Medicare eligible who retire <u>after</u> provision adoption.
 - The effective date is the date of acceptance.
 - No effect on current retirees

Medicare Supplement Plans

The Town of North Reading offers:

- Medex
 - Which supplements Medicare A & B to provide coverage that is actuarially equivalent to active employee indemnity plans. No Referrals, Primary Care Physicians or Co-pays.
 - Monthly premium: \$229.67/month
 - Benefit Rich Plan
 - 30 day Prescription Plan Provides Full Coverage of generic drugs and 80% coverage for brand name drugs after a \$50 calendar year deductable.
 - 90 day Prescription Plan retiree pays \$2 for Generic drugs every 90 days and \$15 for Brand Name every 90 days.

How Will Section 18A Help?

- Need to reduce costs where possible
- Improves OPEB liability & bond rating
- Provides for long term savings
- NO IMPACT on existing retirees
- NO IMPACT to future non-Medicare retirees
 - Non-Medicare eligible stay in active plan
- NO PENALTIES to Retirees or Town
- Long-term strategy to reduce Health Insurance cost.

Health Insurance Costs

- Limited ability to control health costs
- Unsustainable rate increases
 - MA has highest medical costs in US
- Costs increase as revenues decrease
 - Impact employees, retirees & taxpayers
 - Affect hiring & reduction of Municipal Services

Health Insurance Costs FY02-10

(Rounded In millions)	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Health Expenses	1.9	2.2	2.6	2.9	3.4	3.6	4.1	4.4	4.4
Operating Budget	34.4	35.4	35.9	40.2	42.6	45.6	48.5	50.9	50.8
% of Operating Budget	5.2%	6.1%	7%	7%	7.9%	7.8%	8.3%	8.5%	8.6%

Over the Last 9 years:

- Annual costs: \$1.9M to \$4.4M
- 5% of Operating Budget in FY02
- 8% of Operating budget in FY10

North Reading Retiree Group

- 290 Retirees in our group health Insurance:
 - 196 in MEDEX the Medicare supplement
 - 94 in Active/non-Medicare plans
- 94 Retirees remain in Active Plans :
 - 16 Eligible for Medicare, 9 to be determined
 (25 Total)
 - 69 Not eligible due to Age, Non Medicare Eligible or Still working.

Financial Impact – North Reading FY10

Annually - Based on current/single plan coverage

Plan Coverage:	<u>Employee</u>	<u>Town</u>	<u>Premium</u>
	<u>Contribution</u>	<u>Contribution</u>	Savings To City
			<u>per Retiree</u>
Active Plans:			
Network Blue HMO-70/30%	\$2070	\$4832	\$2076
Blue Care Elect PPO 50/50%	\$4160	\$4160	\$1404
Medicare Plans:		-	
Medex 50/50%	\$2756	\$2756	Per
Medicare Part A	\$0.00		Medicare
Medicare Part B	<u>\$1,326</u>		Retiree
Medicare A&B Total:	\$4082		

Potential Cost Savings

25 Eligible retirees on the active Network Blue HMO and Blue Care Elect PPO

Estimated Annual Savings based on 25 retirees = \$95,134 annually.

Adoption of 18A is the Fiscally Responsible Choice

- Most Medicare Eligible retirees are already enrolled in Medicare – 67%
- Medicare plus Medicare supplemental plans are equivalent to active employee plans
- Prospective NO impact on current retirees
- No risk of future penalties for Retiree or Town
- Immediate reduction in OPEB liability Audit finding
- Health cost control is necessary